3 Types of Reward Programs Every Retail Brand Should Know About

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The economy is in a period of incredible growth, due in large part to consumers doing what they do best… consume. Ecommerce, in particular, has seen rapid expansion, especially in the past 19 months. According to data from IBM's U.S. Retail Index, in 2020 the pandemic accelerated the shift from in-person shopping to ecommerce by five years. In the U.S., ecommerce sales grew 31% in 2020 versus the previous year's figures, and another 22% during the first half of 2021 — breaking sales records every month.

As spending increases, consumers increasingly expect cashback and discounts

Concurrent with these dynamics, consumers increasingly seek, and *expect*, rewards and discounts as part of online shopping experiences. Cashback programs and discounts are no longer the realm of coupon-clippers: they have gone mainstream, thanks in part to the emergence and success of services like Rakuten, Honey and Capital One Shopping. An August, 2021 survey of 5,000 banking customers conducted by American Banker and Monigle found that "rewards and loyalty remain paramount to

the customer experience”.

Why rewards and discounts are emerging as the most efficient marketing strategies for retailers

As online advertising becomes more expensive (and often less effective), merchants are looking for the best way to deploy marketing budgets to acquire and retain customers. Retailers are finding that pay-for-performance channels deliver an increasingly attractive return on advertising spend (ROAS), and are heavying up budgets for cashback, coupon and loyalty platforms built upon a pre-existing affiliate marketing infrastructure. These rewards-focused marketing channels drive key revenue metrics for retailers, including increased sales conversion rate, reduced cart abandonment rates and higher average order value. Plus, they offer merchants the ability to only pay when a sale is actually made.

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Consumer services, too, from telecoms to financial institutions, are increasingly offering rewards programs to benefit (and retain) customers by rewarding them for shopping. There are several approaches to this, some more effective than others, so what is the best way for a consumer service to implement shopping rewards? Let’s look at the three main categories of reward/loyalty platforms.

1. Card-linked offers

Born out of the need to provide attribution from online advertising to offline transactions, a card-linked offer is tied to a specific payment card, and earns the consumer cash back or discounts at select merchants, so long as the consumer

activates the reward in advance and uses the specified card. You've probably seen how these work in your own credit card activities. You log in to your account, see a list of offers, activate them, then make the purchase at that merchant to effectively "redeem" your offer.

Card-linked offers do a nice job of earning rewards from local and/or off-line businesses; however, they are a mismatch for ecommerce, because they don't map to consumers' natural shopping behavior. Rather, as noted above, the customer has to take a detour from their natural online shopping flow to activate offers in advance of shopping, with multiple steps required before they're able to receive the benefit. It isn't a great customer experience, either, because the process makes the cardholder jump through hoops.

Still, card-linked offers can be good for the small number of customers who do seek them out and use them. And with their detailed transaction history, card issuers are able to target these programs to the right customers. A case could also be made that retailers garner incremental new customers from them, if the person who activates and redeems an offer by purchasing at that merchant was not already a customer there. But in the end, because of the multi-step detour required to redeem, card-linked offers aren't the best solution for the majority of customers.

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2. Shopping portals

Another common tactic is to offer cashback and discounts via a "shopping portal" (a.k.a. "offer wall"). In this model, the program creates a separate section behind the customer's account login, where a range of offers and cashback benefits are aggregated. The customer can then choose to shop directly from the merchant links on this page – in fact, the customer *must* click from the shopping portal link in order to receive

the cashback offer. This click creates the connection, so that the merchant is able to attribute the resulting sale. This way, the merchant can issue the affiliate commission for that sale to the bank, which in turn passes on part or all of the commission to the customer as cashback.

It's convenient for the customer to be able to see all the offers in one place, but this too is a less than ideal shopper experience. Customers must remember three steps in order to initiate receiving cashback on their ecommerce purchase: log in to their account, visit the portal, and click on the desired merchant – a sequence that's well outside a typical online shopping journey. How often do you think to check your bank or mobile carrier's offer directory before you buy a new pair of running shoes (or anything else for that matter)? Many companies offering these shopping portals see less than 2% of customers taking such a detour: most go directly to the brand's site.

Shopping portals do have the advantage of displaying offers in a single convenient place, and some companies are attracted to offer walls because it presents their brands (with associated deals) to an audience that has high purchase intent. But ultimately, they're not the best solution for the customer, since the required detour is outside of their usual behavior and, frankly, difficult to remember.

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3. Shopping companions

A third reward program flavor is a real-time shopping companion. As the description implies, these are tools which stay with the shopper in the course of their normal, everyday online purchasing behavior. These often take the form of browser plugins/extensions which meet the customer where they are, without taking them out of typical online shopping flow. Whether on mobile or desktop, these tools display available

offers (e.g. coupons and cashback opportunities) in real-time as the customer is visiting a given brand's website.

With these real-time shopping companions, there is no need for a shift in the customer's behavior before they can realize a cashback or reward benefit. They don't have to add an offer to their card or visit a specific page before they can be rewarded. They just shop and buy normally. In essence a shopping companion such as a browser extension offers a personalized experience by default, because it shows relevant offer information for the exact websites an individual user is visiting. Notably, most such companions now exist mainly on desktop; there are few mobile options available.

For providers of rewards programs, these tools increase loyalty and add value. For retailers, participating in them can increase brand affinity for those who are organically shopping, with incremental revenue driven by increased conversion rates and higher order values.

Brands must respect modern consumer behavior and plan for customer experience

The upshot? The three platform types noted above are not mutually exclusive; companies that use a well-rounded and multi-pronged approach – with special emphasis on customer experience – are more likely to succeed. It's now clear that brands can no longer expect customers to take extra and unnatural maneuvers while shopping online. Their experience should be paramount in order to ensure repeat sales, and take precedence when planning customer acquisition campaigns. Companies that take the opportunity to meet customers where they are and complement their *existing* behavior with next-generation shopping and rewards programs will find themselves in the retail market pole position.

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